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IRAN-IRAQ: Iranian Offensive Imminent

(Information as of 2300 EDT)

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Comment: //There still is no indication of the location of the impending attack. It may be the climactic engagement of Iran's offensive, and Tehran is likely to risk major losses to achieve its tactical goals.//

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Iranian Oil Exports

Iraqi air attacks on Khark Island have had minimal effect on Iranian exports.

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//Tanker owners continue to send their ships to Khark Island, despite Iraqi bombings and higher insurance premiums.

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Diplomatic Activity

Saudi Crown Prince Abdallah held talks with Iraqi President Saddam Hussein in Baghdad last weekend. Abdallah's visit was highly publicized in Iraq.

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Comment: The visit marks Saudi Arabia's strongest gesture of support for Iraq since the invasion, and it may signify Saudi confidence that Iraqi forces will continue to repulse the Iranians. Abdallah and Saddam almost certainly discussed the possibility of renewed Saudi financial aid.

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ISRAEL-LEBANON: Continued Pressure on Beirut

(Information as of 2300 EDT)

Israeli aircraft hit West Beirut again yesterday. There was little military activity in the Bekaa Valley. Egyptian President Mubarak has called for a comprehensive settlement of the Palestinian issue. Israel has dismissed PLO leader Arafat's acceptance of UN resolutions as a public relations ploy.

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//Israeli planes bombed the perimeter of the Beirut airport, the Arab University, and the Shatila refugee camps. Israeli gunboats, tanks, and artillery directed their fire on Palestinian positions in the city's southern suburbs.

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//The Bekaa Valley was quiet except for an exchange of small arms fire.

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Egypt's Position on Lebanon

Egypt is urging that a withdrawal of Palestinian forces from Lebanon be linked to movement toward an overall solution to the Palestinian issue. President Mubarak, in comments to newsmen following a major speech yesterday, stated the Palestinians should not be removed from Lebanon except in the framework of a comprehensive settlement.

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Mubarak made similar comments in his address marking the anniversary of the Egyptian revolution, stressing the importance of preserving Palestinian rights. He also criticized Israeli activities in Lebanon but called on the Palestinians to recognize Israel's right to exist in return for Israeli recognition of the Palestinian right to self-determination.

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Comment: Egyptian Foreign Minister Ali's trip to Washington this week probably is another attempt to convince the US of the need for steps that will give hope and confidence to PLO leaders.

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Israeli Reaction to PLO Statements

Israeli officials have described PLO leader Arafat's acceptance of all UN resolutions dealing with the Palestine problem as a public relations ploy designed to draw attention away from the military situation in West Beirut.

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Comment: Israel has long held that the true test of PLO intentions should be the organization's willingness to revoke articles in its charter denying Israel's right to exist. Even a public PLO acceptance of UN Security Council Resolution 242 would have little effect in Israel.

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Lebanese Complaints

Lebanon's UN representative appealed yesterday for UN help in reestablishing central government authority in Israeli-occupied areas in Lebanon. He complained about Israeli efforts to establish a "parallel government" in the south and called on the UN to expand the mandate of its forces in the area.

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JAPAN: New Defense Plan

//Japanese officials are moving quickly to head off a strong negative US reaction to recent decisions on defense that they know fall short of US expectations.// [redacted]

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//Government and ruling party spokesmen have told several US officials that the defense plan for 1983-87 approved on Friday is the best possible under the circumstances and will substantially improve Japan's military capabilities. [redacted]

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//A high-level politician emphasized [redacted] how cautiously the government had to move because of domestic political resistance to greater defense spending and the constraints imposed by budgetary austerity. [redacted] defense spending will exceed the politically sensitive ceiling of 1 percent of GNP in the next few years.// [redacted]

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Comment: //Although Tokyo argues the defense plan can be revised upward, such revisions probably will be marginal because of Suzuki's caution and his commitment to austerity. The Japanese, however, hope their explanations will forestall a serious run-in with the US at the annual bilateral security talks scheduled to begin late next month.// [redacted]

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USSR: Capacity of Grain Ports

//Soviet ports are taking in record amounts of grain as a result of equipment and procedural improvements and a seasonal increase in the availability of railcars.// [redacted]

//The Soviets have worked steadily over the past year to increase their grain import capacity. [redacted]

[redacted] the Soviets also are transshipping more grain through Western Europe to permit greater use of small vessels that can unload at many of the river and other shallow-water ports in the USSR.// [redacted]

Shipments of grain from foreign ports to the USSR set new records three months in a row: 4.5 million tons in March, 4.8 million tons in April, and about 5.0 million tons in May. The previous record was 4.1 million tons in September 1981. [redacted]

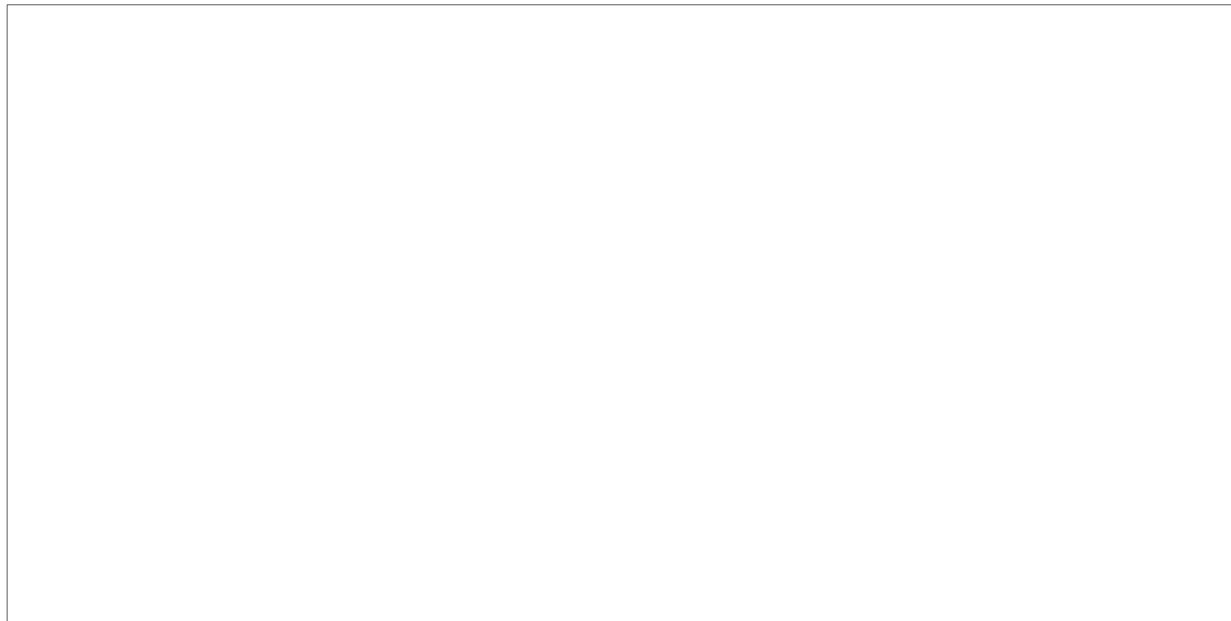
[redacted] Even with deliveries at record levels, the average time required to handle a ship after its arrival has been shortened from 47 days in the last quarter of last year to less than 24 days in May of this year.// [redacted]

Comment: //The discharge capability of grain port equipment in the USSR has consistently exceeded the Soviets' capacity to move the grain inland, which currently is about 50 million tons annually.// [redacted]

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USSR: Senior Party Leader Transferred

Soviet radio announced on Friday the transfer, under the supervision of Party Secretary Kapitonov, of Krasnodar Kray party chief Medunov to an unspecified post. Medunov, a member of the party Central Committee, has been implicated in the corruption scandal in Krasnodar that involved the Soviet Fish Ministry and resulted in the execution of a deputy minister. There have been unconfirmed reports that Medunov and Yuriy Brezhnev, the President's son, are good friends and are somehow linked in the corruption. Soviet Ambassador to Cuba Vorotnikov has been named to replace Medunov. [redacted]

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Comment: The reports of Medunov's involvement in the scandal, the presence of party troubleshooter Kapitonov, and the failure to announce Medunov's new post strongly suggest he was fired. The decision to remove him almost certainly was made by the Politburo, but it is not known whether Brezhnev participated in that decision. Because of the rumors that Brezhnev's son has been associated with Medunov, the event may be a calculated slight to Brezhnev. [redacted]

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PERU: Renewed Terrorism

//Another resurgence in the terrorism that has plagued Peru for two years was marked last week by the second bombing of the US Embassy in a year and the murders of local government officials in several highland provinces. The government has declared a state of emergency in the affected areas and proposed the death penalty for terrorist actions that lead to fatalities. [redacted] a popular consensus is growing for the Army to take at least a limited role in combating terrorism. President Belaunde is reluctant to use the Army, however, because a similar step during his first administration put the military in position to oust him in 1968.// [redacted]

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Comment: //The intermittent nature of the terrorism has enabled Belaunde to let civilian security services deal with it, despite their ineffectiveness and lack of cooperation. A sustained terrorist campaign could cause the armed forces to assume an antiterrorist role even without the President's approval.// [redacted]

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SPECIAL ANALYSIS

LIBYA: The Pressures on Qadhafi

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//Lower oil production has added to problems Libyan leader Qadhafi is facing. The current economic malaise will further irritate many Libyans, who are already unhappy about some of the regime's domestic demands. Qadhafi's security apparatus is still formidable, however, and there does not appear to be an immediate threat to his hold on power.//

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//As a result of the soft oil market and Tripoli's hardline pricing policies, Libyan oil production plummeted to a low of 660,000 barrels per day in February 1982 from a high of 1.6 million barrels per day a year earlier. Last year Tripoli experienced its first current account deficit since 1975--\$3.1 billion--and foreign exchange reserves have currently fallen below \$7 billion from \$13 billion in January 1981.//

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//Overdue payments are estimated at about \$6 billion. The substantial decline of imports in the first quarter of 1982 and managerial ineptitude have increased food shortages.//

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//Libya's financial situation should improve soon, however, because of the gradual dissipation of the oil glut and a more aggressive pricing policy. Libyan production probably will average about 1.2 million barrels per day in July, and may reach an average of 1.3 million later this year.//

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//Nevertheless, Libya's current account deficit is likely to approach \$7 billion in 1982. This will force the government to draw down reserves further, or to increase foreign borrowing and to make more cuts in nonessential imports.//

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Causes of Discontent

//The economic malaise probably has added to the disaffection caused by other unpopular measures instituted by the regime. The imposition of universal military conscription--including the drafting of women--and the transformation of universities and secondary schools into military barracks for six months of the year have been major irritants.//

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//In addition, the excesses of the revolutionary committees continue to rankle. These groups of young zealots are charged with bringing persons allegedly guilty of a lack of revolutionary fervor or other "crimes" to trial before special tribunals.//

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//Even before Libya's oil revenues fell, Qadhafi's economic "reforms" stirred up popular discontent. The initial reforms primarily antagonized the middle and upper classes, but the confiscation of bank accounts amounting to more than about \$3,000 and other moves have had a broader impact.//

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//The closing last year of small, privately owned shops was an attack on a traditional way of life. Moreover, the inexperience and inefficiency of those managing the new state-owned stores probably have been a major factor in the current shortages and supply dislocations.//

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//Dissatisfaction also exists in the military--the one organization with the power to remove Qadhafi.//

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Qadhafi's foreign adventures in Uganda and Chad and the arrest of senior officers in purges have cost him support in the armed forces. In addition, the military is angry over Qadhafi's installation in its ranks of revolutionary committees, which has elevated junior personnel over the heads of their seniors.//

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//Various elements of the military have reacted with a series of coup or assassination attempts in the past few years. The last ones occurred in December.//

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Exile Groups

//A number of loosely organized groups of exiles are plotting against Qadhafi. None, however, seem to have much--if any--organized support in Libya. They dissipate their energy in vying with one another for membership or trying to gain a propaganda advantage.//

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//The most promising of the existing groups is the National Salvation Front, a new organization led by Muhammad Magaryaf.

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If Magaryaf succeeds in carrying out operations in Libya, he probably would attract some local support and heighten the regime's sense of vulnerability.//

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Qadhafi's Strengths

//Qadhafi still holds some important cards. He has effective intelligence and security services, fellow tribesmen in sensitive positions to serve as informers, revolutionary committees that at least discourage dissident activity, and a record of dealing ruthlessly with suspected opponents. To help defend against attacks on his life, he surrounds himself with bodyguards and changes his schedules frequently.//

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//Perhaps most important, the country enjoyed years of unprecedented prosperity under Qadhafi's rule. If the oil market continues to improve, a strong economy will help reinforce his position.//

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